RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Dec. 23, 1992 **LETTER 1111**

THE PICTURE: There's no sense being stubborn (or stupid), so I want to review my market-trend stance. When, on October 5, the D-J Industrial Average plunged below its April low of 3181.35 (thereby confirming the prior indications of the Transports) I stated that the primary trend had turned down and that a bear market was in force. One item did bother me at the time, and it was that the Transports on October 5 did not break to fresh new lows along with the the Dow (see page 1 chart). I was well aware of this, and it bothered me, but I decided to overlook it.

If I had to do it again, I would have insisted that BOTH Averages break to fresh new lows before calling a bear market. Secondly, at the time of the bear signal my Primary Trend Index was still holding to a definite bull trend, and this also bothered me.

At any rate, here's the current situation, and the strange fact is that it's still not entirely clear. The major stock averages are at extremes of over-valuation (this weighed heavily on my bear market decision). The bull market (if indeed it is still a bull market) is very old in the tooth, and this is another negative. Probably most important of all, the Dow, so far, has stubbornly refused to confirm the new highs in the major composite averages. So on a strict Dow Theory interpretation, I can't yet say that I was wrong -- but at best it looks as though I jumped the gun.

But wait -- I could be wrong. So let's look at the opposing (bullish) evidence. The major composite averages (NYSE, S&P, Wilshire, NASDAQ) have all advanced to new highs. My PTI has continued to push to new highs. The A-D ratio has now rallied to new highs for the year.

Conclusion: In retrospect, I probably should have held off on calling for a bear market. I should have presented the evidence on both sides and put a question mark in the "Investment Position" box.

As for my present position, a new high in the Dow (above 3413.21) would seal the case for the bulls -- and definitely prove that I was wrong.

But wait -- what if the Dow fails to go to a new high, and the market turns down, and it then becomes very obvious that we are in a bear market? In that case, I would still say that I should have held off due to the Transport resistance on the downside and due to my PTI never having confirmed a bear market.

At any rate, to place the whole picture in perspective, we've had new highs in the major composite averages and that's certainly impressive. On the other hand, the market is very expensive, the Dow has failed to confirm the major composite averages, daily new highs have been coming in at a decidedly sub-standard rate, and a tremendous amount of speculation has been coming into the market.

My instinct here is to be very conservative, very careful. Since the Dow Theory stresses values above all, perhaps the overriding fact for this market is this -- based on a current yield of 2.91% on the S&P 500, investors are now paying 34.3 dollars for every dollar of dividends on the S&P 500. Any time it costs more than 32 dollars to buy one dollar of S&P dividends, you can be sure that the market (based on historical precedent) has moved into a top area.

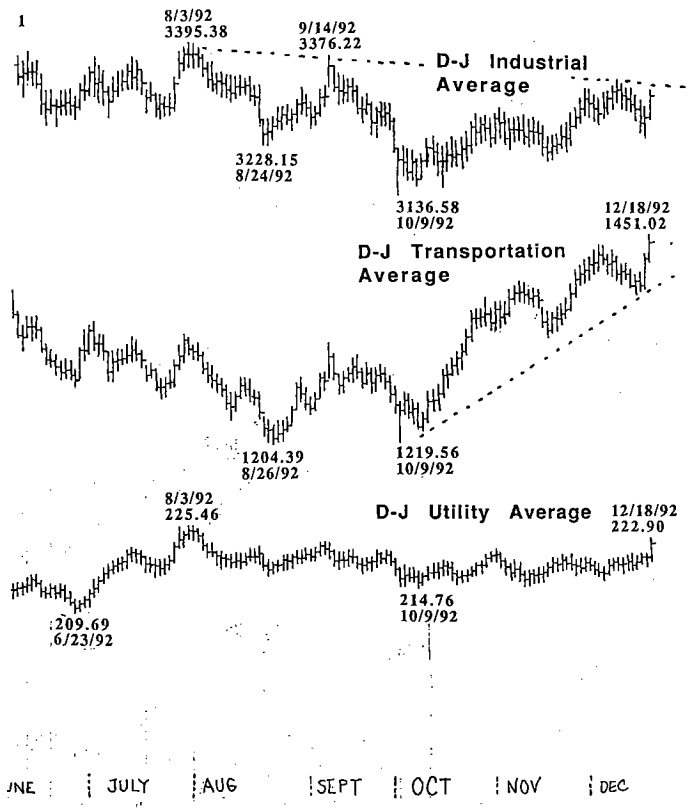
Dec. 11 DJIA 3304.08; PTI 3639; A-D Ratio -8.59
Dec. 18 DJIA 3313.27; PTI 3646; A-D Ratio -8.31
Dow Yield: 3.12%; Dow Price/Earnings: 44.3
Dow 200-day MA: 3292; Dow 30-day MA: 3260
Dow Times Book Value: 2.54; PTI 89-day MA: 3579
Percentage of Undervalued Blue-chips: 9%
Low Risk Buy Index: +113

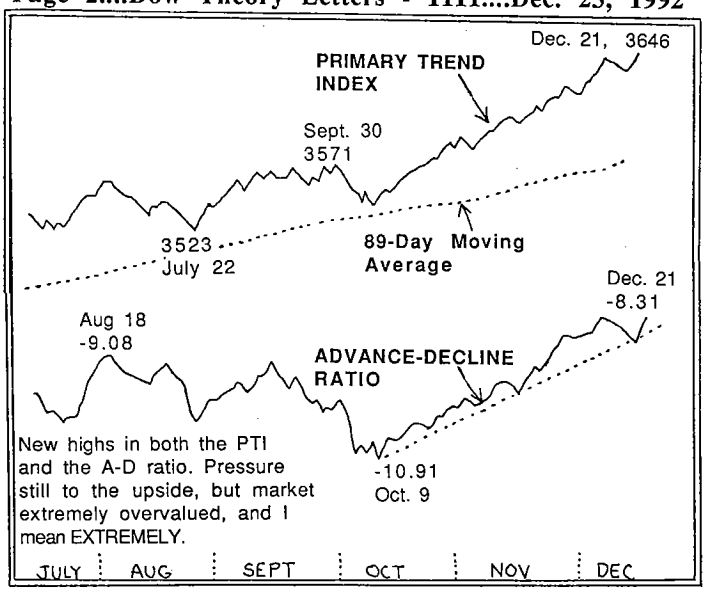
For proof, consult the Ned Davis chart that appeared on page 3 of the last Letter.

BALANCING OUT: In the following section I want to introduce some interesting facts. Over the years, the S&P 500 has grown at a compounded annual rate (including dividends) of slightly better than 10%. There have been periods (some of them extended) in which the market has done a lot better than 10% compounded. But over time everything evens out, and the better-than-10% periods have been followed by periods in which the S&P has done considerably worse than 10%. So one way or another, over time the balance always comes back to average compounded annual yields of 10%.

But in the period of 1975 through the end of 1991 (17 years) the compounded annual rate rose to 15%. Furthermore, during that entire 17 year period there were only four losing years. Yet none of those four losing years ended with losses of more than 6%. So 1975 to 1991 was an incredible and entirely atypical period. I have stated this before -- since 1975 we have never had a year which produced a double-digit loss in the averages.

In comparison, during the period of 1960 to 1974 there were six losing years for stocks, and four of those years produced double-digit losses. The loss-years were 1962 with a loss of 16%, 1969





with a loss of 14%, 1973 with a loss of 23% and 1974 with a loss of 27%.

Now let's examine the period of 1982 through mid-1992. During this ten-year period the S&P has grown at the extraordinary compounded annual rate of **18.7%.** I started investing in 1946, so I've lived through all these periods and I remember them all well, very well (including, of course, the depressing period of mid-1949, when the Dow hit a low of 161.60).

But here's my point -- the stock market hasn't suffered a single year of double-digit decline in the last 17 years. On top of this, the great majority of brokers and advisors haven't even been around for 17 years, so they've never seen a truly costly (bear market) year. In fact, the great majority of today's brokers and advisors have never even seen a year-to-year decline of more than a piddling 6%.

Again remember -- over any extended period of time the market has a way of balancing out. And we've just experienced a ten-year period of 18.7% compounded growth.

What's next? Nobody knows. That's the only honest answer. A lot of people guess, many people forecast, and a few promise -- but nobody really knows. What we do know is this -- over any considerable length of time the S&P tends to compound, including dividends, at just over 10%. Somewhere ahead the balancing out period is waiting. It isn't going to be pretty; no, it promises to be the roughest period that this generation of investors and baby boomers and busters have ever experienced.

PRIMARY TREND INDEX: In line with all the above thoughts, I sit here and I study the long-term trend of my PTI. And here's what I see. The Primary Trend Index recorded an extreme low of 578 on December 6, 1971. Since then it has climbed over 3,100 points without ever having suffered what I would call a major bear market decline.

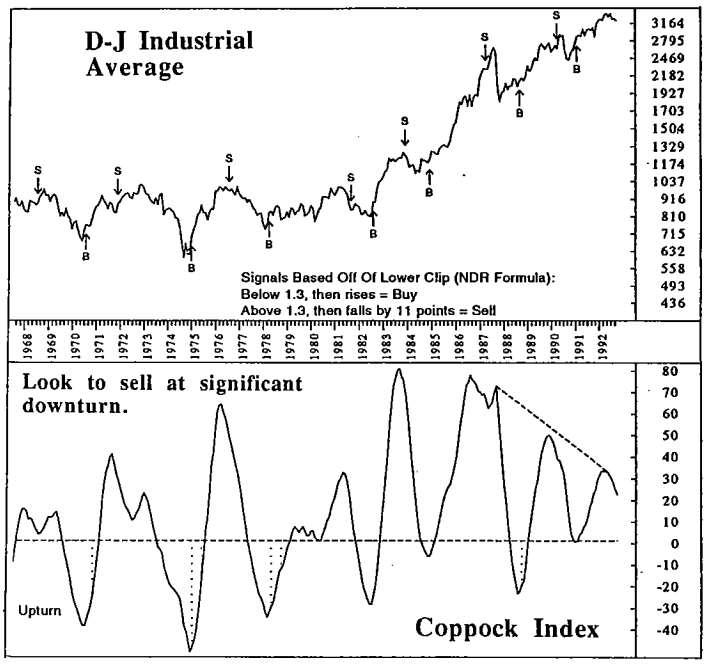
It's a bit scary. No tree grows to the sky, and that applies to my PTI. Somewhere ahead lies a full correction of the huge 1971-92 rise in the PTI. Believe me, it's going to be a devil to live through.

COPPOCK INDEX: In Letter 1107 I published a detailed section on Coppock's Low Risk Buy Index. I included Coppock's own words to the effect that the Index was of no particular use for calling tops -- the Index was to be used strictly for identifying low risk bottom situations.

Now along comes a new study by *Ned David Research* [(800) 241-0621] that provides a fascinating addition to the Coppock Index. Writes Ned, *"Our computer did in fact find a superb set of sell signals on this indicator, produced when the Coppock Index rolls over and falls by 11 percentage points. Our analysis, which goes back 35 years, shows this one single indicator beating buy-and-hold by a whopping 68.5% per year with a 90% accuracy rate. The key point which you should know right now is that if the Dow doesn't soar past 3485 (that is not a misprint) by the end of November, this indicator will flash a sell signal."*

Well, the test is on. The Dow closed the month of November at 3305.16, 180 points below Ned's 3485 critical point. That triggers a sell signal on the Coppock Index. So now we'll see how accurate this indicator is. It appears that very few people expect this market to head down in a major way -- but as you know, the market loves to do the unexpected.

(Note: Figures for the Coppock Index, which is computed monthly, appear in the statistics section of this Letter on the upper section of page 1. Ned Davis computes the Index in a slightly different way than I do, but the direction and indications of the Coppock Index by both methods are pretty similar.)


D-J Industrial Average
Signals Based Off Of Lower Clip (NDR Formula):
Below 1.3, then rises = Buy
Above 1.3, then falls by 11 points = Sell
Look to sell at significant downturn.
Upturn
Coppock Index

INVESTMENT POSITION: I'm putting a question mark in the box rather than a bull or bear. Why? Because I don't think the case for either a bull or bear market has been proved -- yet. But be aware, the Dow is still more than 130 points below its June 1 record high of 3413.21.

?

The American people feel better because George Bush is out and Bill ("talk-a-thon") Clinton is in. Whether our new populist president is going to "get America moving again" remains to be seen, but we do know one thing -- the Fed has flooded the banks with liquidity. Normally, that would be a "jump-starter" for both the stock market and the economy (although with the massive amount of debt that has been built into this economy we know that these are not normal times).

However, the key is this -- don't concentrate on the news, concentrate on the market's reaction to the news. Let's watch the action of the Averages. Let's watch the action of the A-D ratio and the PTI. But let's also remember that that stocks are very expensive here, and that the time-honored key to the stock market is values. *Sindlinger* notes that a record 57 million households now own stock or mutual funds. The public is up to its neck in stocks, and they are growing increasingly optimistic about both the market and the economy.

As I said earlier, I am playing it very conservatively here. The more enthusiastic the public becomes regarding equities, the less enthusiastic I get.

I have just checked the accounts (all assorted blue-chip stocks) that my children own, and it's notable that the net asset value of these accounts have been basically unchanged for months.

Along these same lines, few people realize it but **1992 is shaping up as the narrowest (range) year in stock market history!** The Dow's range so far in 1992 is an amazingly narrow 8.8%. The nearest we have to this year is 1979 with a 12.6% range, and the next is 1956 with a 12.7% range.

What does this mean? To me, it means that the market (particularly referring to the big, high-cap stocks) is very uncertain about the future. Opinion is divided. The big stocks, the ones that make the trend, can't decide what's coming up (which is remarkable, considering that we have a new president from an opposing party).

Caveat emptor! Be careful. The investors who buy and sell the BIG stocks are not stupid.

Currencies: The yen, mark and Swissie have again turned bullish against the dollar. The French franc is under attack and being supported by the French and German central banks. If France is forced to devalue the franc against the mark, that will almost surely be the end of the European Exchange Rate Mechanism. It would also be a huge blow to European economic unification. Forex traders are watching to see how far the currencies can climb against the dollar. Watch 90 on the March Dollar Index. If that cracks, the dollar is headed decisively down.

TAKING ON A LIFE OF ITS OWN: One of the concepts that fascinates me is the concept of phenomena that take on a life of their own. And it's something that occurs often in our own lives. For instance, it's most prevalent in diseases such as alcoholism, narcotics addiction, obsessive gambling. Each of these diseases in the end seems to take over the life of the person. When carried to extreme the person can be destroyed by his or her own diseased psyche.

Certain physical diseases appear to take on a life of their own. Cancer is one that comes to mind. The cancer starts in one area, spreads, and if not treated ultimately takes over the organism or person.

A similar phenomenon seems to occur in politics. Take the example of Stalin's Russia. Here was one sadistic dictator ruling the lives of hundreds of millions of people. He ordered the murder of tens of millions of his countrymen. There was almost no opposition. Everyone evidently went along with Stalin's madness. The population was passive. No one came up and put a bullet in Stalin's brain. Years go by. The Stalin dictatorship seems to take on a life of its own. Stalin died in bed. Nobody ever stopped him. He was the world's worst murderer (estimates are as high as 20 million people killed). Stalin's reign seemed to take on a life of its own.

What about Saddam Hussein? He ruined Iraq. Tens of thousands have died in his insane wars. He murdered many of his top generals. Yet everyone around him goes along with his craziness. No one had pulled out a pistol and ended his mad reign. Bush, Saddam's nemesis, is ousted. Saddam's reign goes on. A strange passivity rules Iraq. The Saddam dictatorship seems to have taken on a life of its own. Amazing.

How about the incredibly stupid and costly US tax system? It's entrenched in the country. Congress can use it to manipulate, to stimulate here, to punish there. The insane and inefficient tax system is in the hands of Congress, and they won't give it up. They won't change it, because basically it's a Congressional power tool. The US tax system has seemingly taken on a life of its own.

The US federal deficit has taken on a life of its own. It's a cancer that nobody will operate on. Furthermore, the nation lives off it; to eliminate the deficit would be to throw the US into the depths of depression. Finally, the deficit is so huge, so incredible, that it's eaten the Social Security trust, it's swamped the money markets, and it's beginning to devour the very country that created it.

How do all these phenomena end? It seems to me that they end by collapsing or destroying the host organism. Communism ended in the Soviets because it was unworkable. It crashed of its own weight. Cancer (if not treated) ends with the death of the patient. Castro's reign in Cuba will end when the Cuban economy totally collapses. I don't know how Saddam's reign will end -- maybe he'll die of old age, or maybe he'll be killed in a new Iranian invasion.

How will the ridiculous US tax system end? How will the US federal deficits end? I can only answer that they'll end when the corruption and stupidity of the situation reaches the point where the economy literally ceases to function.

When I was at New York University I took a course taught by the late great teacher, Sydney Hook. The course was called "The Philosophy of Democracy." It was the most instructive and memorable course I ever took in college.

Hook stated that Democracy was not the best political system in the world, but it was the fairest system because it was based on the right of the people to make their own mistakes. One day I raised my hand and asked Professor Hook, "If Democracy isn't the best political system, what is the best system and why don't we adopt it?" Hook answered, "The best system would be a dictatorship with one stipulation -- God would have to be the dictator." However, Hook warned, a dictatorship with anyone else but God at its head is, and always will be, a disaster. "Unfortunately, since we can't induce God to set up his own dictatorship," added the professor, "Democracy is the best we have to offer."

I objected, "But we don't have a real Democracy. We have entrenched special interests, violence, corruption, politicians who are only interested in money and power and keeping their jobs."

"True," answered Hook. "But nobody has ever found a perfect diamond either. We just know what a perfect diamond would look like. By the same token, our Democracy is far from perfect, but we have to have an ideal, something we should be aiming at. If you don't have an ideal, then you don't know which way to head, which path to fight for."

I never forgot Hook's words. And today I find myself wondering whether we can move towards a better, more decent Democracy -- or will taxes, greed, self-interest, corruption, and federal and state deficits take on a life of their own and ultimately destroy the system?

NOTES & QUOTES: IBM has 800,000 shareholders. From its 1987 high of 175 3/4, IBM has dropped to 52, a crushing loss of 70% of its value. You think none of the Big Boys got hurt? Here are some major holders: Bankers Trust, NY, with 11 million shares; Capital Research and Management with 10.9 million shares (they added 580,000 shares in the third quarter); Wells Fargo Inst. Trust 10.8 million shares; Mellon Bank 6.1 million shares; Mich. State Treasurer 5.4 million shares; College Retirement Equities Fund 5.2 million shares (they added 1.7 million shares in the third quarter); Chemical Banking 4.3 million shares; NY State Common Retirement Fund 4.2 million shares; NY State Teachers 3.6 million shares; Univ. of Calif. 3.2 million shares; Fidelity Management 3.1 million shares and on and on.

* *

There's no question about it, Bill Clinton's jaw may be the closest thing we'll ever see to perpetual motion. Clinton loves to talk, shake hands, talk, hug and talk some more. At the big "economic summit," Clinton was a verbose moderator as over 300 people in all walks of life expounded on what they thought was right or wrong with the US economy. The *WSJ* called it an "economic Tower of Babble." Russell opinion: We may actually be better off if Clinton keeps talking instead of acting. It's not his talking that worries me, it's what he might do if he acts.

* *

In Jim Grant's latest report *(Grant's Interest Rate Observer)*, he states, "One thing we do know: the Fed has been buying prodigious amounts of securities. On November 25, its outright holdings of Treasuries totaled $292.3 billion, a record." When the Fed buys securities, this is known as monetization, and it is inflationary. So I looked up my Fed statistics, and I noted that over the last six months the Fed has purchased $25 billion of bonds. Jim Grant is right, the Fed has been very busy. In case you didn't know it, the Fed has been trying to re-inflate the economy. So don't be surprised it inflation heats up next year -- to around 5% or better.

* *

Along these lines *IMTRAC Report* (PO Box 30058, Kansas City, MO 64112) has this to say, "Treatises have been written about the social and economic consequences of inflation . . . Inflation leads to progressive speculation and eventually every class of society is subverted. Inflation tends to put honest men under a pressure which can corrupt them, but more importantly, it tends to put dishonest men in a position where they have the money and the incentive to bribe. Because it is unjust, inflation breeds class hatred on both sides. It demoralizes and alienates the middle class and is hardest on the poor. Lastly, it gives rise to political extremists. On balance, the US has steadily inflated since the '60s. Need one say more about the cause of our plight?"

All of which made me think. When I was a kid the British pound was worth a little over $4. Today the pound is worth around $1.55. But the dollar has lost better than three-quarters of its value since my boyhood, so obviously the pound has lost a lot more than that.

Showing my age, I still tend to shudder when I go to a restaurant. For instance, the other night I took two of my kids to a local Chinese restaurant. The bill for the three of us was $26 plus tip (which is cheap as meals go these days). But memories -- back in the early 1950s I worked on Worth Street, a few blocks from Chinatown in NYC. Being a nut for Chinese food, I would walk over to Chinatown every day for lunch. Lunch would run around 60 cents or if I wanted to go all out maybe 90 cents. That was the '50s. Ah yes, back in the '30s my dad would take the whole family out for Sunday dinner, well, about once a month. There was a very good restaurant on 72nd Street off Broadway in NYC called the Cecil. We would get a full, five course dinner there for 75 cents. Then the Cecil went broke, and a new owner took over and raised the price for a Sunday dinner to a dollar. My father was so incensed that he never took us there again.

I just wanted to give you a few examples of how the purchasing power of the dollar has been systematically destroyed. Maybe the best and most dramatic example is when we see baseball players today getting contracts for $3 to $7 million a year. For comparison, Bernard Baruch was considered marvelously rich when he came out of the big bear market in 1932 with assets of $15 million. Yep, times have changed, and so has the value of a dollar.

* *

The world is going "global," and global corporations may be the wave of the future. What are the biggest and best global companies? Here is Michael Landry's list (President of Mackenzie Global Fund): Coca-Cola, which will spend $5 billion over the next five years on international expansion. Merck earns 44% of its revenues overseas (and it also has very little debt). Nestle, world's largest food group. Exxon, world largest integrated oil company (Russell comment: I put Royal Dutch in the same class). Deutsche Bank, considered by many the world's premier bank, with holdings in dozens of companies. Philip Morris, with an enormous list of consumer products. Glaxo, considered to have the world's best new drug pipeline. Schlumberger, cash rich, the world's largest oil locater and helper to oil producers, operating in more than 100 countries. Union Bank of Switzerland, AAA-rated, and a power in international lending. Hanson, PLC, a huge conglomerate operating around 130 companies worldwide. Russell comment: You could do a lot worse than owning a piece of these 10 companies. Own 'em, and you can consider yourself a true global investor, connected, so to speak, to the prosperity (or lack thereof) of the world economy.

* *

I've seen poverty and human tragedy. I saw kids in Naples during WW II peddling their sisters for 20 lira or begging for food for their hungry families. You want to see grinding poverty? 20 miles south of here in Tijuana you can see young Indian women squatting in the streets with their stunted, pathetic kids, all with hands out begging for nickels or dimes. But watching the TV news -- the sight of thousands of starving kids in Somalia, that's something else. It's heart-breaking and beyond pathetic. How long will US troops be there? Will we try to disarm a nation? Is it Bush's gift to Clinton? Funny thing -- I don't here a blessed word about how much it's going to cost. That'll come later.

* *

Here's a message for my very well-off subscribers: every person in the US has a one-time tax-free exemption of $600,000 that can go to people other than one's spouse. But the talk is that Clinton and the Dems would like to reduce the exemption to $200,000. Therefore, if you have people you want to leave money to, and you are of a mind to give away money before you die, you might give away at least $400,000 now rather than wait to see what new tax laws Clinton and Congress will come up with.

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For you BIG investors and millionaires (and I have a great many of both), here's an item of interest. I've been receiving *Lowry's Buying Power and Selling Pressure* service for decades. It's an excellent advisory that was started back in the 1930s. The service defines the main trend of the market by means of buying power and selling pressure, and I have always found their information to be invaluable.

Now *Lowry's* has come out with what they call their "Institutional Report." This is without doubt one of the most valuable all-around advisories I have ever seen for the serious, wealthy investor and for institutions. The service (weekly) includes dozens of terrific charts and explanations plus a marvelous run-down of stocks and stock groups with power ratings on 900 stocks. The service is not cheap -- $3,750 a year -- but believe me, if you handle big money, it's worth it. If interested, I suggest you call Lowry's at (800) 345-0186. Tell them that I suggested that they send you a sample.

* *

A fascinating letter (Dec. 8) to the *New York Times* by a psychoanalyst makes the case that the obsessive gambler is really trying to escape from painful depression. I don't doubt it. Gamblers seem to go on a special kind of "high," based on the excitement of whether they are going to win or lose. The other theory I've always held to is that the obsessive gambler is suffering from a feeling of being unloved, and that on an unconscious level gambling is a game of "she loves me, she loves me not." If the gambler wins then "mother loves him," if he loses "mother has forsaken him." Which one will it be?

I've always been fascinated with the psychology of gambling, mainly because it is so foreign to my own nature. I dislike gambling, and in my own investing I try in every way to eliminate the gambling element. Of course, the single best way to "get rich" and at the same time avoid gambling (and to a large extent even avoid speculation) is via compounding, of which I have written a great deal over the years.

In case you weren't aware of it, speculation and investing both imply study and a knowledge of the item you are dealing with. Gambling entails depending to a large extent on Lady Luck. For instance, in the card game Twenty-one, I don't care how skilled you are, you have to get some decent cards in order to win. To the extent that you depend on good cards, you are gambling. Playing the slots is pure gambling, since it's impossible to apply any skill or knowledge towards winning.

* *

For all you amateur PC users (and I'm one): I have both Macs and IBM compatibles -- the truth -- Macs are a heck of a lot easier to use than Windows. But the Macs tend to be slow. Take your choice. As for me, without a mouse, I still struggle with a PC, but everyone tells me that "in time you learn". Tell me about it.

* *

The whole S&L mess boils down to this: it will cost every American roughly $2,000 before it's over. Who won? The

lawyers: Last year the RTC and the FDIC paid out $900 million to 2,000 law firms (and this does not include what the two agencies paid to their own legal staffs). This year the RTC expects to pay another $425 million in legal fees.

But today the law is no easy business. Firms are turning lean and mean, and in many cases they are shedding both associates and partners. California alone has 130,000 lawyers. Kids getting out of law school this year will not find it easy landing jobs.

* *

Want to make multi-millions? It's hard if you're an employee. Of *Forbes'* 400 list of richest Americans, only three are employees of companies. They are Roberto Geizueta of Coca Cola, Hank Greenberg of American International Group (a heck of a company and a stock, by the way) and Michael Eisner of Disney. The cut-off for the *Forbes* 400 is $265 million. A few weeks ago Eisner took down a $197 million profit on stock options that he got when he joined Disney in 1984. Why did Eisner sell? He said he sold because he believes he'll pay less taxes this year than he will next year under Mr. Clinton. Believe him.

* *

Barry Diller (who put the Fox Broadcasting System together and made it work) has grown tired of Hollywood and the whole difficult and risky movie business. Diller tried unsuccessfully last summer to acquire NBC from GE. Now he's turned to TV and more specifically cable TV. Diller thinks that the future of the entertainment business is not in broadcast TV but in cable. Many in Hollywood think that "video on demand" is the wave of the future. In this area, people would have the equivalent of a huge video rental store at their fingertips, and that's the way Diller is going. Diller put $25 million in to buy a mere 3% of QVC, but he will soon be chairman of the company plus getting options of 6 million shares at $30. Diller is optimistic about cable for home shopping and he's also talking about a new technology which would give cable viewers access to up to 500 channels. "I made a $25 million bet, and I've placed it on cable," said Diller.

In the meantime, the FCC has given approval to a new wireless microwave technology that could transmit up to 49 channels to receivers mounted atop your TV set. The system is being tested in Brooklyn. One huge advantage of the new system is that the system avoids the massive expense of wiring every home that receives cable. Did Barry Diller jump the gun on his cable bet? Only time will tell, but if successful, the new microwave technology would constitute a real threat to cable. Already, the company (a start up called Cellular Vision of NY, Inc.) has offered Brighton Beach a package of several dozen cable TV channels including CNN, MTV and two movie channels for a very competitive $29.95 a month. That alone could have the cable companies sweating.

* *

This from columnist Malcolm Berko: "Social Security is bankrupt. The billions of dollar of SS money taken from your paycheck are not put in a cookie jar. That money is used to pay congressional retirement benefits, to send aid to places like Angola, Somalia and N. Vietnam, to fund pork-barrel projects, to pay for the S&L mess, and yes, to reduce the deficit. Without the $60 billion collected this year in SS taxes, our deficit would be $350 billion rather than $290 billion. And during the past dozen years Congress has been using the SS money to float the bloat in their budgets. So when the time comes to take your cookie, there won't be a crumb left in the cookie jar . . . That cookie jar is stuffed with IOUs. And every month when SS writes a check, it scratches for the cash to redeem them. Because those IOUs may have little value when you're 65, I'd begin right now to accumulate the resources to make up for the potential loss."

Russell comment: It's so disgusting to see the money that should be building up in the SS trust spent as fast as it comes in, and just as disgusting -- this SS money is used to cover up the real federal deficit, which is now running at over a billion dollars a day. I've been paying SS taxes since I was 21, and I won't collect a cent of all those taxes that I paid in. Why? Because SS subtracts one dollar for every three dollars you make over $10,000 once you qualify. So all that money I put in for my hoped-for nest egg, I won't get a cent of it unless I stop working (which I won't do). Yeah, tell me that SS is not a boondoggle and a tax. If it isn't a tax, then where's the money they promised me?

* *

James L. Clayton was turned down by Visa for a credit card. Said Clayton, "I've been reading that the banks are being very conservative these days when it comes to extending credit. Now I can believe it." Clayton is on the *Forbes* list of the 400 richest Americans. He plans to appeal.

* *

The TV pact with baseball is almost guaranteed to be smaller next year, but that didn't stop the owners. In Louisville over a five day period baseball owners spent $258 million on free agent players. The worst investment for 1993 may be a baseball season ticket -- because the rumor is that the owners plan a lockout.

* *

All Britain has been semi-hysterical regarding the "official" separation of the Royals, Charles and Di. Said Ross Benson, royal reporter for the *London Express,* "No one knows what to do . . . These matters were dealt with much more simply in the Middle Ages. They'd simply have executed Diana. Charles would take another wife and all would be serene again." Russell comment: aren't you glad you're living in the 20th Century?

* *

Trading Faces: Boy, do these cartoonists ever get it right!

James Morin *Miami Herald*

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The sports world is frustrated and angry at Cincinnati Reds owner Marge Schott, who stupidly and ignorantly used ethnic slurs in both private and public. Words and weird word-sounds have always fascinated me. For instance, probably no writer today has a better ear for the language than best-seller Elmore Leonard. His latest book is "Rum Punch." I usually don't read fiction, but how can anyone resist a book about a black criminal named Ordell Robie and an ex-cop turned bail bondsman named Max Cherry.

I'll confess -- in the silence of the night I often amuse myself by dreaming up comic names. For instance, there's my Swedish lady weight-lifter, Grinelda Thurm. I have my favorite dentist, Fred Floss. Then there's the giant Jewish football player, Myron "Bubba" Flaggenheimer. I have the famous Italian heavyweight wrestler, Carmine Crunch. And speaking of Italians, how about my cast of Mafia heavies -- Nunzio Marinara, Vito Calamari and that rotten little squealer, "Chicken" Cacciatore. I have a lion-tamer, Claude Rump. Then there's my favorite Mexican guitarist, Mango Papaya. Last time (this is true) I was in New Orleans, I heard a radio announcer named Garland Robinette. Is that a beautiful sound? But enough of this nonsense.

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This is no joke. The Russians have developed the world's most drastic "cure" for alcoholics. It's a cure which your life depends on. This is from the *London Financial Times:* "A drug is sewn under the skin, which, the patient is convinced, will kill him if he drinks any sort of alcoholic beverage. The treatment is administered

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to desperate alcoholics. Fear of death becomes the only way to prevent them reaching for the bottle. Of the thousands of Russians who seek alcoholic treatment in state-run clinics each year, about 5,000 patients receive one of two drugs designed to control the disease."

LATE NOTES: It looks to me as though the market is moving into a trading range. The big stocks, as exemplified by the Dow, are simply being braked by the reality of overvaluation. The high-capitalization stocks are just too expensive. And the best example is that today you pay 32 dollars for one dollar of Dow dividends.

It's really extraordinary, these great swings in investor sentiment. In 1932, at the bottom of the great bear market, it cost investors just 10 dollars to buy one dollar of Dow dividends. In 1949 it cost investors 14.2 dollars to buy one dollar of dividends. Today one dollar of Dow dividends costs more than twice as much as it did in 1949, and remember, in 1949 you were buying stocks following a three-year bear market, whereas today you are buying stocks after a rise that started way back in 1974 or, if you wish, 1982.

It has been demonstrated that investors are largely influenced by the most recent action of the market. If the market has been rising for an extended period, then people tend to think the market will continue to rise. If the market has corrected on numerous occasions and following each correction the market has risen to new highs, then that is the pattern that people believe will continue. And of course, that is exactly the sentiment of today -- namely, that any correction, no matter how severe, will be followed by new highs in the major averages.

Stock market predictions are a dime a dozen. Read any financial magazine or newspaper and you will be treated to numerous forecasts and predictions by any number of "name" analysts.

But the question is -- how much is a prediction worth? Most of the time, not much. Some predictions are valid, most are wrong. All of which brings me to a discussion of my PTI.

Unfortunately, the PTI really doesn't predict. What the PTI does do is cut through the fog, confusion and mystery of the market. Without equivocating or double-talk, the PTI tells you the current underlying trend of the market. The PTI may hit its bull market peak tomorrow or next week or a year from now. BUT, and this is critically important -- as long as the PTI is in a rising trend it is telling you that the basic trend of the market is UP. And as long as it's falling, the PTI is telling you that the underlying trend of the market is down. And believe me, that information is more important that 10 dozen predictions, any one of which may be right or wrong.

It's been suggested to me, "Russell, why don't you just publish a two-word report. One Letter would say, "PTI UP," and maybe a month later another Letter would say, "PTI DOWN."

My answer: That kind of Letter would make it a heck of a lot easier for me, but people wouldn't buy it. People want background, they want opinions, they want information about the economy and about other markets -- gold, bonds, currencies, foreign markets. And to be honest, I've got to make a living, and I don't think a two-word Letter would be a major seller.

But I will say that the PTI and A-D ratio chart on page 2 has become one of the most important segments of this Letter. Honestly, when I first developed the PTI back in 1971 I never thought it would work as superbly as it has. I developed it mainly for my own use, because I wanted an indicator that was not in the public domain, meaning that I wanted an indicator that only my subscribers could follow.

Well, the PTI, as this is written, is still in a bull trend. It has risen to absurd highs, highs that in my wildest dreams I never envisioned in 1974 or even in 1980 or 1982 (so much for predictions).

Actually, only one thing worries me. When the PTI finally turns decisively and persistently down, I will have trouble believing it and so will my subscribers. It's been so many years since the PTI has fallen into a confirmed, extended downtrend, that we will be conditioned by our experience of the most recent past (actually, by the past of many, many years).

Ah yes, but why predict. Why jump the gun. The PTI is in a bull trend. That's the operative fact. Let's watch it.

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This is now the most expensive stock market in history, more expensive than 1929, more expensive than 1987, more expensive than 1990. I'll offer proof in the next Letter, but here's an item that I think is indicative: in the December 21 *NY Times* there's an article entitled, "After IBM's fall, Microsoft?" The jist of the article is that the market wants another bellwether and maybe Microsoft is it. Microsoft? Get this, MSFT sales are roughly $3 billion. The stocks is selling at around current 8 times sales (I said sales, not earnings, sales). Microsoft, in my opinion, has not only discounted the future, it has discounted the hereafter. Maybe that's what the 1992 market has done as well.

GOLD: At the Clinton roundtable seminar, the speaker that probably attracted most notice was John White, architect of Perot's deficit plan. Clinton took notice of White's dire projections for the budget deficit, and has since admitted that his early assumptions appear too optimistic. White's latest deficit projections are $300-310 billion for the current fiscal year, $320-330 billion for 1994, $275-285 billion for 1995.

Clinton would still like to hop-up the economy, but those deficit figures are making him stop and reconsider. The answer: boost taxes for the rich, raise taxes where you can and start up a few new government programs (maybe building roads or new post offices as per the Great Depression).

Big deficits are deflationary, they eat at a nation's guts, and it's showing in gold. The metal just can't get off the ground. The recent action of gold (Feb. contract) is significant. We saw an early November low for gold (Feb. contract) at 330, then rally to 340. Last week Feb. gold promptly fell back below 335 again.

But there's this one thought -- if the Administration wants the US economy to really get off the ground, they need inflation to help them. Without inflation, it's going to be a long, staggering, sputtering "recovery." That, I feel, is what's keeping gold above 330 despite the current deflationary atmosphere. You don't believe deflation? You ought to check around California (home of one out of every eight Americans).

Every serious market student is familiar with the laws of probability, but once in a while something happens which throws those laws into a cocked hat. For instance -- In the 74 years in which the National Football League has existed, there have been 132 instances where teams have lost their first four games. The record shows that not one of these teams has ever made the playoffs. This year the San Diego Chargers lost their first four games. What happened next was extraordinary. Last Sunday, in beating the Raiders, the San Diego Chargers won the tenth of their last 11 games and in so doing made history by making the play-offs. Even more astounding, the Chargers have now beaten the point spread 11 games in a row. This has happened only once before in NFL history. Said Roxy Roxborough, Las Vegas' top oddsmaker, the Chargers' fantastic streak is a "fluke, harder to do than winning 10 games in a row." He stated that the odds on beating the spread three games in a row is difficult, to beat the spread 11 consecutive games the odds are greater than 1,000 to one.

In closing, to all my subscribers -- Seasons Greetings, have a Great New Year, stay healthy, eat right, count your blessings, watch your Karma, and above all, do the right thing.

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